February 7, 2015

Mr. Barry F. Mardock
Deputy Director
Office of Regulatory Policy
Farm Credit Administration
1501 Farm Credit Drive
Mclean, VA 22102-5090

Re: Proposed Capital Regulations for the Farm Credit System

Dear Mr. Mardock:

On behalf of our shareholders, Fresno Madera Farm Credit is pleased to share our comments regarding the proposed capital regulations for the Farm Credit System and its institutions. We are pleased to participate in this process and add our comments to those also submitted by our funding bank, CoBank as well as those submitted by the Farm Credit System Capital Workgroup ("Workgroup") on behalf of the entire Farm Credit System.

In general, we acknowledge the importance of evolving the capital regulations that govern the system in order to adopt a framework that is generally consistent with the spirit of Basel III. While the letter put forward by the Workgroup provides a detailed accounting of the areas where the proposed regulation can be improved, we want to emphasize several important areas of concern and opportunities to improve the final regulation.

Eliminate the Shareholder Vote for Bylaw Changes

The proposed capital rule will require the shareholders to approve a change to the bylaws of our organization. This requirement is unrealistic, and puts our shareholders in an impossible position with regard to the choice it presents; either vote 'yes' on changes that do not clearly benefit the shareholder, or vote 'no' and be in violation of the newly implemented regulation.

- We propose that the mandatory bylaw change be retracted from the final regulation, and that the FCA rely on other means such as board policies and member disclosures in order to achieve the same outcome as the bylaw change.

Reduce the Proposed Revolvement Period for Common Equity Tier 1 (CET1) to 7 Years

The Basel III Accord contains no basis for the idea of a revolvement cycle of 10 years; introducing one here creates a fundamental conflict with cooperative principles. We believe that the at-risk nature of capital creates the idea of permanence. Cooperative members elect directors to manage capital programs and changes to those are based on the current and future needs of the organization. Implementing this element of the proposed rule significantly undermines the board's role in managing the capital at each institution. Furthermore, it significantly undervalues an important form of capital unique to cooperatives; the rule discourages and demotivates members from leaving earnings in their cooperative.

- If a revolvement cycle for equity must be included in the final rule, we suggest 7 years.

Eliminate the 10 Year Revolvement Cycle for Association Investments
We strongly encourage the FCA to reconsider this aspect of the proposed capital rule. The idea that individual shares of Association equity cannot be considered as CET1 equity until 10 years have elapsed is unrealistic, and creates no clear benefit. The reality is that these equities are understood to be "at risk"; the idea that these equities cannot meet the permanence hurdle until after 10 years is unrealistic, and unfairly punishes the cooperative model of capitalization.

- We request that the FCA allow Funding Banks to continue their practice of equalizing capital investments, and eliminate the reference to a revolvement cycle in the final rule.

Reduce the Proposed Minimum Tier 1 Leverage Requirement to 4%
We believe that the proposed minimum Tier 1 Leverage requirement of 5% is completely without basis, and also in direct conflict with the spirit of Basel, which is to create consistency across the banking system with regard to capital requirements. The idea that the Farm Credit System should have a higher capital requirement from other financial institutions is unfair, and would unnecessarily create a perception that somehow the Farm Credit System's institutions are inherently 'more risky'.

- We request that the final version of the rule reduces the minimum Tier 1 Leverage requirement to 4% in order to remain consistent with Basel III.

Revise the Proposed "Safe-Harbor" Provision and <u>Eliminate</u> the "Haircut Deduction"
The proposed rule contains restrictions that would be unique from commercial banks in that it limits the amount of capital distributions to the past year's net retained income. Variances from the rule require FCA approval. This proposed rule puts the FCA in a position to make decisions on equity distributions are the responsibility of the cooperatives' board of directors. In addition, the requirement is more restrictive than regulators that are implementing Basel III for cooperatives in other countries. Commercial banks are allowed to distribute their current year net income, plus retained income for the prior two years. The proposed "haircut deduction" if an institution redeems or revolves equity without FCA approval is unprecedented and unnecessarily punitive. Furthermore, this element of the rule is ambiguous and also completely inconsistent with Basel III.

- We recommend that the FCA change the proposed rule so that the requirements are consistent with foreign and U.S. banking regulators. This can be achieved through eliminating the "haircut deduction" completely and revising the "safe-harbor" provision.

Maintain the Existing Risk Weighting for Rural Electric Cooperative Assets
We strongly believe that the FCA should preserve the existing 50% and 20% risk weight treatment of exposures to electric cooperative assets. Changing this regulation to require 100% risk weight treatment has no basis as the underlying risk of these assets have not changed. These entities continue to enjoy exclusive market territories, and a number of other unique factors that limit the amount of underlying credit risk associated with loans made to these entities.

Eliminate the Requirement to Treat FCS Bank Loans as Having an Unfunded Commitment

We strongly believe that Associations closely manage commitments to extend credit through their retail lending activity *with each specific borrower* and that the current regulations address the capital requirements for that activity. The proposed requirement to capitalize the unused portion of direct notes that Association's use to fund their loans is unnecessary.

- We strongly urge the FCA to eliminate this new requirement.

We understand and acknowledge the importance of updating the regulations relating to capital in the Farm Credit System and the need for that rule to create consistency with other lending institutions around the world, so that we may all participate in the market on an equal footing. As this process is undertaken, we firmly believe in the importance of maintaining the fundamental integrity of the cooperative capital structure, and also maintaining the fundamental roles played by the cooperatives' membership and board of directors.

We appreciate the opportunity to comment on the proposed capital regulation, and appreciate your consideration of our concerns and the recommendations that we have made regarding changes that could improve the final regulation. Please let us know if we may further clarify our concerns that we've included here for your consideration.

Sincerely,

Keith Hesterberg
President and CEO